



Legislative Audit Division

State of Montana

Report to the Legislature

November 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Office of the Secretary of State

This report contains two recommendations related to:

- ▶ **Providing adequate supervision and training over the accounting function to ensure compliance with state law and accounting policy**
- ▶ **Seeking legislation to amend or clarify state laws concerning:**
 - **State records committee meetings**
 - **Disposal of elections records**
 - **Business corporations and nonprofit corporations**
 - **Untimely delivery of incomplete corporate report**
 - **Voter information packet requirements**

**Direct comments/inquiries to:
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04-28

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Room 160, State Capitol
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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 2004. Included in this report are recommendations to provide adequate supervision and training over the accounting function to ensure compliance with state law and accounting policy, and to seek legislation to amend or clarify state laws. The office's written response to the audit recommendations is included in the back of the audit report.

We thank the Secretary of State and his staff for their assistance and cooperation.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Office of the Secretary of State

Members of the audit staff involved in this audit were Pearl M. Allen,
Alexa O'Dell, Delsi Plummer, and Jeff Tamblyn.

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Elected and Administrative Officials

Office of the Secretary of State

Bob Brown

Secretary of State

Pat Haffey

Acting Chief Deputy, and
Deputy for Business Services

Janice Doggett

Chief Legal Counsel

Kathy Lubke

Deputy for Administrative Rules

Elaine Graveley

Deputy for Elections

Lynn Keller

State Records Manager, and
Acting Management Services Bureau Chief

For additional information concerning the Office of the Secretary of State, contact Bob Brown, Secretary of State, at:

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Helena MT 59620-2801
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Office of the Secretary of State

This financial-compliance audit report documents the results of our audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2004. We issued an unqualified opinion on the financial schedules of the office for fiscal years 2002-03 and 2003-04. This means the reader can rely on the financial information presented and the supporting detailed information on the state's accounting records.

This audit report contains two recommendations. The recommendations relate to providing adequate supervision and training over the accounting function to ensure compliance with state law and accounting policy, and seeking legislation to amend or clarify state laws concerning state records committee meetings, disposal of elections records, business corporations and nonprofit corporations, untimely delivery of an incomplete corporate report, and voter information packet requirements.

The prior audit report contained three recommendations. The office partially implemented two recommendations and did not implement one recommendation. The recommendations not completely implemented are discussed in this report.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the office provide adequate supervision and training for the office's accounting function to ensure compliance with state law and accounting policy. 7

Office Response: Concur. See page B-4.

Recommendation #2

We recommend the office seek legislation to amend or clarify state laws concerning:

Report Summary

- A. State records committee meetings.
 - B. Disposal of election records.
 - C. Business corporations and nonprofit corporations.
 - D. Delivery of the corporate report.
 - E. Voter information packet requirements. 9
- Office Response: Concur. See page B-4.

Introduction

Scope

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2004. The audit objectives were to:

1. Determine office compliance with selected laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the office.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 2004.

This report contains two recommendations to the office. Areas of concern not having a significant effect on the successful operations of the office are not included in this report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Because the office discontinued the use of its Internal Service Fund, as described in note one to the financial schedules beginning on page A-11, during fiscal year 2002-03, we did not audit the reasonableness of Internal Service Fund fees and fund equity balances at the office as required by section 17-8-101(6), MCA. However, we did audit fees charged by the office that had a material effect on the office's financial schedules to determine whether fees were commensurate with the overall costs of the office and reasonably reflect the prevailing rates charged in public and private sectors for similar services, as required by section 2-15-405(2), MCA. We noted the office's fees were appropriate.

Background

Article VI, section 1 of the Montana Constitution states the executive branch includes a secretary of state. Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA) sets forth the Secretary of State's duties. The office has 51.25 FTE in six bureaus and the executive

Introduction

office. The office files, stores, maintains, and preserves permanent records of the state and certain public interest records of private citizens. The office publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The Secretary of State serves as chief election officer for the state, maintaining uniformity in the application of the election laws and retaining election records through the Elections Bureau. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

During the audit period, several bureaus of the office were subject to performance reviews by contractors or outside auditors. Contractors the office hired conducted process re-engineering studies over business services, Uniform Commercial Code (UCC), administrative rules, and notary functions. The records management function was subject to a performance audit conducted by Legislative Audit Division (State Government Records Management, 02P-04). Office staff indicated there were approximately 50 internal policy and procedures changes, as well as 20 changes in statute that resulted from these studies.

Prior Audit Recommendations

We performed the prior audit of the office for the two fiscal years ended June 30, 2002. The report contained three recommendations. The office partially implemented two and did not implement one of the recommendations. The prior recommendations relate to untimely deposits, unrecognized revenue, and untimely delivery of an incomplete corporate report (discussed on pages 3, 4 and 8).

Findings and Recommendations

Business Processes

The office did not provide adequate supervision or training to accounting staff to ensure compliance with state law and accounting policy.

State law requires agencies to input all necessary transactions by the end of each fiscal year to present the receipt, use, and disposition of all money for which it is accountable, in accordance with generally accepted accounting principles. State policy addresses various business practices to assure compliance with state law and consistency within state government. This financial-compliance audit identified business processes, primarily within the Management Services Bureau, which are not in compliance with state law and policy, including untimely deposits, inadequate segregation of duties over collection processes, incorrect accounting, and improper payments. Our concerns are outlined in the sections below.

Timely Deposits

During the past two audits, we noted the office was not depositing receipts in accordance with state law. Section 17-6-105 (6), MCA, requires agencies to deposit funds when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All money must be deposited at least weekly.

We looked at various documents from five deposits and identified problems with each deposit date. Of the 17 business corporation documents tested, 15 of the related receipts were deposited at least one day late while 5 of the 15 were deposited at least three weeks after receipt. We also tested nine notary documents and found that all payments were deposited one business day after receipt. In addition, we noted records management receipts were only deposited once per week. For each date tested, total office deposits exceeded the limits in state law. Therefore, all receipts from all bureaus should have been included to have a complete daily deposit.

Office staff indicated they receive thousands of business corporation documents during the first four months of each calendar year. Although they hire seasonal staff to more effectively handle the

Findings and Recommendations

volume of receipts, they still have trouble making a complete deposit each day. The majority of office receipts are delivered to the bureaus in the morning, but receipts for notary and records management are returned to management services bureau after the cut-off time established for the daily deposit.

Segregation of Duties

State accounting policy requires each state agency to establish and maintain a system of internal controls over collections and deposits. An effective system of internal controls will provide reasonable assurance the collections and deposit procedures are properly performed. No one person should perform functions which place the person in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. An effective system of internal control has an additional benefit of protecting honest employees from unwarranted suspicion of wrongdoing.

During the audit, we noted one office employee was responsible for collecting, processing, and depositing Uniform Commercial Code (UCC) documents, which totaled \$536,916 in receipts during the audit period. The employee sorted and opened the mail, date stamped the documents, restrictively endorsed the checks, input the receipt into the UCC system, and prepared the deposit ticket. Office policy requires UCC documents to be completely processed on the date they are received. To facilitate meeting office policy requirements, the employee takes the UCC documents prior to having them date stamped and restrictively endorsed by a different employee. The office should reassign duties among staff to eliminate the incompatible functions.

Unrecognized Revenue

Each day, cash and checks come into the office for UCC and business filings. Office personnel enter the information onto a tracking system, deposit the money received, and record the money as Property Held in Trust (PHIT). Money remains in PHIT until such time that office employees determine the appropriate revenue account in which to record the activity. The office does not ensure receipts are recorded as revenue by the end of each fiscal year.

Findings and Recommendations

According to state accounting policy, proprietary fund type revenue must be recognized in the year earned.

State accounting policy also indicates the PHIT account is for funds that the state is holding in a fiduciary manner, while the Uncleared Collections account is defined to identify the amount of collections which are pending distribution. Because receipts are awaiting appropriate revenue classification, receipts should originally be coded to the Uncleared Collections account. The Department of Administration requires the Uncleared Collections account balance to be zero at end of each fiscal year. By using the PHIT account, the office avoids the Department of Administration's requirement. Using the Uncleared Collections account will assist compliance with state accounting policy.

By allowing receipts to remain in PHIT rather than record them as revenue, the office understated revenue by \$66,190 and \$156,555 in fiscal years 2002-03 and 2003-04, respectively, and overstated PHIT by the same amounts as of June 30, 2003 and 2004.

Overstated Revenues and Expenditures

As described in note one to the financial schedules beginning on page A-11, the office began to account for records management activity in the same Enterprise Fund as other office functions during fiscal year 2002-03. Records management fees are established based on costs to provide the services, such as salaries, rent, computer costs, and other overhead. Although the office incurred no additional costs, they recorded revenue and additional expenditures by billing the Enterprise Fund for records management services provided within the Enterprise Fund, which caused double accounting of expenditures and overstatement of revenues. This resulted in overstatements of revenues and expenditures by \$48,634 and \$38,166 in the Enterprise Fund for fiscal years 2002-03 and 2003-04, respectively. Office personnel stated the internal billing procedures were not considered during or after the fund change.

Unallowable State Benefits Payments

According to state policy, employees who voluntarily or involuntarily experience a reduction in scheduled hours below 20

Findings and Recommendations

hours per week may continue coverage under the state's insurance plans if the employee self-pays the entire monthly premium. At January 24, 2004, an employee whose leave balances had been exhausted was placed in "leave without pay" status on the state's accounting system because the office did not want to terminate the employee. Because of this status, the office paid seven pay periods of insurance coverage after this employee's hours were reduced below the limit. In May 2004, the employee's status was corrected, which automatically discontinued the office's payment for insurance benefits. Between January and May 2004, the office incorrectly paid \$1,435 for insurance benefits. Office staff indicated the employee was not aware that insurance coverage was being provided. We confirmed that no insurance claims were paid for services provided to the employee between January 24, 2004 and May 15, 2004.

Appropriate Mileage Reimbursement Rates

We examined 11 travel reimbursement documents and noted the office used mileage rates that exceeded the allowed state rates on three of them. Two payments were for non-employee travel for which the office paid 38 cents per mile. One payment was for an office employee who was reimbursed 18.45 cents per mile. State accounting policy in effect at the time the payments were made indicated the rates were 36 cents and 17.94 cents per mile for non-employee and employee reimbursement, respectively. Mileage rates used on the travel reimbursement forms are not confirmed by accounting staff prior to payment.

Turnover, Supervision and Training

Over the past several years, the office has experienced significant turnover in the management services bureau chief position, which oversees the accounting function. Currently the position is vacant.

During times of turnover, supervision and training of staff become increasingly important to ensure proper procedures are followed. To reduce the types of accounting errors identified during our audit, the office would benefit from hiring a person knowledgeable in state accounting policy as well as the other areas of expertise, such as human resources and budget, necessary to fulfill the bureau chief position, and by providing necessary training to accounting staff.

Findings and Recommendations

Recommendation #1

We recommend the office provide adequate supervision and training for the office's accounting function to ensure compliance with state law and accounting policy.

Statutory Housekeeping

Statutes affecting the office's operations are out of date or need clarification.

During our audit we identified instances of non-compliance with state law that the office should address through housekeeping legislation. Specific situations are described in the following sections.

State Records Committee Meetings

In 1977, the Montana Legislature recognized the importance of preserving and properly disposing of public records. That year, it created a State Records Committee and assigned it the task of monitoring record retention and disposal. Section 2-15-1013 (3), MCA, requires the State Records Committee to meet at least quarterly. During the audit period, the committee did not meet during four out of eight quarters although sometimes they met more than once in a quarter. Members of the committee indicated there were times that meetings were not held because they had no business to discuss.

Disposal of Elections Records

Section 13-1-303 (2), MCA, requires the office, in consultation with the State Records Committee, to prepare a suggested plan for retention and destruction of certain elections records. In addition, the section requires the office to receive election records destruction plans from election administrators. During the audit, we found the requirements were being met by the Local Government Records Committee rather than the State Records Committee. Office employees were not aware of the requirements contained in this section.

Findings and Recommendations

Business Corporations and Nonprofit Corporations

Sections 35-2-1109 (2) and 35-1-1309 (2), MCA, require the office, upon acceptance of a business or nonprofit corporation document, to provide a receipt for filing fees along with a confirmation letter or a copy of the document being filed to the company. These sections also require the office to file documents by stamping or otherwise endorsing the document “Filed”, together with the secretary of state’s name, official title, and the date and time of receipt, on the original, the document copy, and the receipt for filing fee.

During the audit, we noted the office does not return copies of the documents; the office only provides receipts if currency was used to pay the filing fee; and the office does not file a copy of the document. Office staff indicated these laws were missed in 2003 legislative session housekeeping legislation.

Untimely Delivery of Incomplete Corporate Report

Section 15-31-603, MCA, requires the office, on or before December 31st of each calendar year, to provide to the Department of Revenue (DOR) a list of all business entities, foreign and domestic, subject to the terms of specific chapters in Title 35, MCA. During the current and prior audits, we noted the office forwards to DOR a list, on a monthly basis, of all new foreign and domestic entities. The office does not forward a complete list of all the entities to DOR.

Office personnel indicated they worked with DOR and determined that the monthly report is more useful to DOR. Our last audit report was issued during the middle of the 2003 legislative session and the office has not had a chance to seek necessary legislation since that time.

Voter Information Pamphlet Requirements

Section 13-27-410 (1), MCA, states the office, “shall arrange with the department of administration by requisition for the printing and delivery of a voter information pamphlet for all ballot issues to be submitted to the people at least 110 days before the election at which they will be submitted.” This section can be interpreted two ways: to require the arrangement for printing, or to require the submission of the voter information pamphlet, 110 days prior to the election. To

Findings and Recommendations

prevent misinterpretation in the future, the office should seek legislation to clarify the requirements.

Recommendation #2

We recommend the office seek legislation to amend or clarify state laws concerning:

- A. State records committee meetings.**
- B. Disposal of election records.**
- C. Business corporations and nonprofit corporations.**
- D. Delivery of the corporate report.**
- E. Voter information packet requirements.**

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of the Secretary of State for the fiscal year ended June 30, 2003, and the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of the Secretary of State for the fiscal year ended June 30, 2004. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust, where applicable, of the Office of the Secretary of State for each of the fiscal years ended June 30, 2003, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,
(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

August 19, 2004

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2003	\$ <u>4,986,241</u>	\$ <u>1,996,907</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2003			\$ <u>0</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	4,293,082	3,509,048	
NonBudgeted Revenues & Transfers-In		333	
Prior Year Revenues & Transfers-In Adjustments		58,344	
Direct Entries to Fund Balance		282	
Additions to Property Held in Trust			76
Total Additions	<u>4,293,082</u>	<u>3,568,007</u>	<u>76</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,533,991	2,926,612	
NonBudgeted Expenditures & Transfers-Out		322,141	
Prior Year Expenditures & Transfers-Out Adjustments		(200,029)	
Reductions in Property Held in Trust			76
Total Reductions	<u>1,533,991</u>	<u>3,048,724</u>	<u>76</u>
FUND BALANCE: June 30, 2004	\$ <u><u>7,745,332</u></u>	\$ <u><u>2,516,190</u></u>	\$ <u><u>0</u></u>
PROPERTY HELD IN TRUST: July 1, 2004			\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND BALANCE: July 1, 2002	\$ <u>0</u>	\$ <u>2,083,957</u>	\$ <u>(94,761)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		3,398,691	
NonBudgeted Revenues & Transfers-In	5,003,440	693	77,794
Prior Year Revenues & Transfers-In Adjustments		6,028	16,967
Total Additions	<u>5,003,440</u>	<u>3,405,412</u>	<u>94,761</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	17,199	3,271,290	
NonBudgeted Expenditures & Transfers-Out		371,057	
Prior Year Expenditures & Transfers-Out Adjustments		(149,885)	
Total Reductions	<u>17,199</u>	<u>3,492,462</u>	<u>0</u>
FUND BALANCE: June 30, 2003	\$ <u><u>4,986,241</u></u>	\$ <u><u>1,996,907</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes		\$ 333	\$ 333
Charges for Services		3,341,433	3,341,433
Investment Earnings	\$ 49,620	14,251	63,871
Sale of Documents, Merchandise and Property		127,724	127,724
Miscellaneous		83,984	83,984
Federal	4,243,462		4,243,462
Total Revenues & Transfers-In	4,293,082	3,567,725	7,860,807
Less: Nonbudgeted Revenues & Transfers-In		333	333
Prior Year Revenues & Transfers-In Adjustments		58,344	58,344
Actual Budgeted Revenues & Transfers-In	4,293,082	3,509,048	7,802,130
Estimated Revenues & Transfers-In	4,104,312	3,441,873	7,546,185
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 188,770	\$ 67,175	\$ 255,945
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		\$ 68,033	\$ 68,033
Investment Earnings	\$ (4,692)	(5,748)	(10,440)
Sale of Documents, Merchandise and Property		1,646	1,646
Miscellaneous		3,244	3,244
Federal	193,462		193,462
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 188,770	\$ 67,175	\$ 255,945

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 20	\$ 157		\$ 177
Charges for Services		3,205,029		3,205,029
Investment Earnings	3,420	12,821		16,241
Sale of Documents, Merchandise and Property		125,671		125,671
Miscellaneous		61,734		61,734
Other Financing Sources			\$ 94,761	94,761
Federal	5,000,000			5,000,000
Total Revenues & Transfers-In	5,003,440	3,405,412	94,761	8,503,613
Less: Nonbudgeted Revenues & Transfers-In	5,003,440	693	77,794	5,081,927
Prior Year Revenues & Transfers-In Adjustments		6,028	16,967	22,995
Actual Budgeted Revenues & Transfers-In	0	3,398,691	0	3,398,691
Estimated Revenues & Transfers-In		3,181,350		3,181,350
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 217,341	\$ 0	\$ 217,341
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services		\$ 217,427		\$ 217,427
Investment Earnings		(27,179)		(27,179)
Sale of Documents, Merchandise and Property		13,321		13,321
Miscellaneous		13,772		13,772
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 217,341	\$ 0	\$ 217,341

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>BUSINESS & GOVERNMENT SERVICES</u>
Personal Services	
Salaries	\$ 1,490,062
Employee Benefits	483,620
Personal Services-Other	(15,143)
Total	<u>1,958,539</u>
Operating Expenses	
Other Services	667,620
Supplies & Materials	106,947
Communications	474,719
Travel	50,727
Rent	142,735
Utilities	2,427
Repair & Maintenance	16,760
Other Expenses	695,298
Goods Purchased For Resale	13,481
Total	<u>2,170,714</u>
Equipment & Intangible Assets	
Equipment	360,000
Total	<u>360,000</u>
Grants	
From State Sources	93,462
Total	<u>93,462</u>
Total Expenditures & Transfers-Out	<u>\$ 4,582,715</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
Federal Special Revenue Fund	\$ 1,533,991
Enterprise Fund	3,048,724
Total Expenditures & Transfers-Out	<u>4,582,715</u>
Less: Nonbudgeted Expenditures & Transfers-Out	322,141
Prior Year Expenditures & Transfers-Out Adjustments	(200,029)
Actual Budgeted Expenditures & Transfers-Out	4,460,603
Budget Authority	12,932,671
Unspent Budget Authority	<u>\$ 8,472,068</u>
UNSPENT BUDGET AUTHORITY BY FUND	
Federal Special Revenue Fund	\$ 7,698,810
Enterprise Fund	773,258
Unspent Budget Authority	<u>\$ 8,472,068</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	NO PROGRAM SPECIFIED	BUSINESS & GOVERNMENT SERVICES	TOTAL
Personal Services			
Salaries		\$ 1,482,950	\$ 1,482,950
Other Compensation		5,800	5,800
Employee Benefits		441,967	441,967
Personal Services-Other		53,950	53,950
Total		<u>1,984,667</u>	<u>1,984,667</u>
Operating Expenses			
Other Services		659,498	659,498
Supplies & Materials		175,773	175,773
Communications		215,998	215,998
Travel		40,322	40,322
Rent		123,734	123,734
Utilities		963	963
Repair & Maintenance		40,595	40,595
Other Expenses	\$ (57,765)	221,108	163,343
Goods Purchased For Resale		10,007	10,007
Total	<u>(57,765)</u>	<u>1,487,998</u>	<u>1,430,233</u>
Equipment & Intangible Assets			
Equipment	57,765	(57,765)	0
Total	<u>57,765</u>	<u>(57,765)</u>	<u>0</u>
Transfers			
Accounting Entity Transfers	43,246	51,515	94,761
Total	<u>43,246</u>	<u>51,515</u>	<u>94,761</u>
Total Expenditures & Transfers-Out	\$ <u>43,246</u>	\$ <u>3,466,415</u>	\$ <u>3,509,661</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
Federal Special Revenue Fund		\$ 17,199	\$ 17,199
Enterprise Fund	\$ 43,246	3,449,216	3,492,462
Total Expenditures & Transfers-Out	<u>43,246</u>	<u>3,466,415</u>	<u>3,509,661</u>
Less: Nonbudgeted Expenditures & Transfers-Out	43,243	327,814	371,057
Prior Year Expenditures & Transfers-Out Adjustments	3	(149,888)	(149,885)
Actual Budgeted Expenditures & Transfers-Out	<u>0</u>	<u>3,288,489</u>	<u>3,288,489</u>
Budget Authority		8,303,184	8,303,184
Unspent Budget Authority	\$ <u>0</u>	\$ <u>5,014,695</u>	\$ <u>5,014,695</u>
UNSPENT BUDGET AUTHORITY BY FUND			
Federal Special Revenue Fund		\$ 4,982,801	\$ 4,982,801
Enterprise Fund		31,894	31,894
Unspent Budget Authority	\$ <u>0</u>	\$ <u>5,014,695</u>	\$ <u>5,014,695</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Secretary of State

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The Office of the Secretary of State (office) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (Federal Special Revenue Fund). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

Office accounts are organized in funds according to state law applicable at the time transactions were recorded. The office uses the following funds:

Governmental Fund Category

Federal Special Revenue Fund - to account for money from federal sources, including trust income, which is used for the operation of state government. The office's Federal Special Revenue Fund includes activity related to the Help America Vote Act (HAVA). The office received \$5,000,000 and \$4,243,462 in HAVA awards from the federal government in fiscal years 2002-03 and 2003-04, respectively. HAVA was a direct result of the 2000 presidential election and requires the state to educate voters, implement new voting procedures, and provide a statewide electronic voter registration database.

Proprietary Fund Category

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The office Internal Service Fund was used during prior fiscal years to account for activity of the records management program. During fiscal year 2002-03, the office determined the records management function was not self-supporting, transferred all records management program activity into the Enterprise Fund, and closed the Internal Service Fund.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the office finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The office's Enterprise Fund activities include business services, administrative rules, election filings, management services, information services, and, beginning in fiscal year 2002-03, records management.

Fiduciary Fund Category

Agency Fund – to account for resources held by the state in a custodial capacity. The office’s Agency Fund includes activity for bad debt collections. There was one transaction recorded to the agency fund in fiscal year 2003-04 to correct an error from a prior year.

2. Expenditure Program (Organization Designation)

As part of the upgrade to the state’s accounting system in fiscal year 2003-04 state officials determined that an organization designation would identify the program to which expenditures should be charged. State officials did not require non-budgeted expenditure transactions to be identified to an organization. The programs listed in the Schedule of Total Expenditures & Transfer-Out are based on the organization designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with an organization identifying the expenditure program in which the activity occurred. This non-budgeted activity is included in the column titled No Program Specified on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2003.

Office Response

MONTANA SECRETARY OF STATE

Bob Brown



Montana State Capitol
P.O. Box 202801
Helena, MT 59620-2801

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OCT 08 2004

LEGISLATIVE AUDIT DIV.

October 8, 2004

Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

Dear Mr. Seacat,

The Secretary of State's Office has received and reviewed the Financial-Compliance Audit for the two fiscal years ending June 30, 2004. We appreciate the professionalism and courtesy with which the audit was conducted. We are also grateful for the insight your staff provides as we work toward a more efficient operation.

We have attached a summary of our response and we understand it will be incorporated into your final report. We appreciate this opportunity for input.

Thank you, again, for the excellent professional work!

Sincerely,

A handwritten signature in cursive script that reads "Bob Brown".

Bob Brown
Secretary of State

attachment

**Office of the Secretary of State
Response to the Legislative Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2004**

Recommendation #1

Provide adequate supervision and training over the accounting function to ensure compliance with state law and accounting policy.

Response to Recommendation #1

We concur. The Secretary of State's Office has put in place specific steps and procedures to ensure compliance with state law and accounting policy. The current interim supervisor closely oversees accounting practices to reinforce compliance with state law. We are strongly recommending that the next administration secure the services of a professional with a strong finance background and experience with supervision and oversight for the position of Management Services Bureau Chief.

Recommendation #2

Seek legislation to amend or clarify state laws concerning:

- State records committee meetings
- Disposal of elections records
- Business corporations and nonprofit corporations
- Untimely delivery of incomplete corporate report
- Voter information packet requirements.

Response to Recommendation #2

We concur. Draft legislation is being prepared to amend or clarify the appropriate statutes.